

Message Text

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ACTION EUR-12

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INFO AMEMBASSY COPENHAGEN
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C O N F I D E N T I A L SECTION 1 OF 2 HELSINKI 0741

E.O. 11652: N/A
TAGS: PINT, FI
SUBJECT: RECONSTITUTED SORSA GOVERNMENT FACING DIVISIVE ISSUES IN
INCREASINGLY POLITICIZED ATMOSPHERE

REF: HELSINKI 0639,

1. SUMMARY: DURING THE WEEK AND A HALF FOLLOWING THE
RECONSTITUTION OF THE SORSA GOVERNMENT, IT HAS BECOME
INCREASINGLY CLEAR THAT THE GOVERNMENT IS FACING
AT LEAST FOUR SEVERELY DIVISIVE ISSUES: (1) A REVIEW OF
EXISTING WAGE AGREEMENTS TO DETERMINE WHETHER WORKERS
SHOULD BE COMPENSATED TO OFFSET THE EFFECTS ON REAL WAGES
OF THE RECENT FINNISH DEVALUATION; (2) THE LARGE DEFICIT
IN THE CURRENT (1978) GOVERNMENT BUDGET WHICH WILL HAVE
TO BE RECTIFIED THROUGH ADDITIONAL GOVERNMENT BORROWING
AND SHARP CUTS IN BUDGETED SPENDING; (3) THE TIGHT FISCAL
SITUATION PROJECTED FOR THE 1979 BUDGET WHICH ALSO WILL
REQUIRE LARGE-SCALE GOVERNMENT BORROWING AND DEEP CUTS
IN GOVERNMENT SPENDING PROGRAMS; AND (4) PROPOSED
CONSTITUTIONAL REFORMS TO PERMIT THE GOVERNMENT TO
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IMPLEMENT IMPORTANT ECONOMIC MEASURES WITH THE
APPROVAL OF ONLY A SIMPLE MAJORITY OF PARLIAMENT. THE
GOVERNMENT COALITION MUST FACE THESE COMPLICATED ISSUES
IN AN ATMOSPHERE THAT IS INCREASINGLY POLITICIZED
BY THE APPROACH OF PARLIAMENTARY ELECTIONS, TO BE HELD
NO LATER THAN NEXT MARCH. FAILURE OF THE GOVERNMENT
PARTIES TO REACH AGREEMENT IN ANY ONE OF THE AREAS AT

ISSUE COULD RESULT IN THE FALL OF THE GOVERNMENT AND THE CONVENING OF NEW ELECTIONS. WE DOUBT THAT THE GOVERNMENT COALITION WILL BE ABLE TO RUN THE GAUNTLET OF THESE ISSUES SUCCESSFULLY AND EXPECT THAT EARLY ELECTIONS WILL BE HELD; THE TIMING OF THE POSSIBLE FALL OF THE GOVERNMENT AND CONVENING OF NEW ELECTIONS WOULD BE DETERMINED BY WHICH ISSUE MIGHT BECOME THE PRECIPITATED CAUSE OF THE GOVERNMENT'S RESIGNATION. END SUMMARY.

2. REVIEW OF WAGE AGREEMENTS.

THE FINNISH LABOR MOVEMENT IS TAKING THE POSITION THAT COMPENSATION TO THE WORKER IS REQUIRED TO OFFSET THE LOSS IN PURCHASING POWER CAUSED BY THE DEVALUATION. EMPLOYERS ARE STRONGLY OPPOSED TO GRANTING ANY WAGE INCREASES BUT ARE PREPARED TO DISCUSS LABOR'S CLAIM AS STIPULATED IN THE CURRENT CONTRACTS' DEVALUATION CLAUSE. ALTHOUGH THE MATTER IS URGENT, AS AGREEMENT SHOULD BE REACHED BY EARLY APRIL FOR THE CONTRACTS TO CONTINUE IN FORCE, THE NEGOTIATIONS HAVE GOTTEN OFF TO A SLOW START, PARTLY BECAUSE THE SOLUTION IS INEVITABLY LINKED TO GOVERNMENTAL DECISIONS ON THE BUDGET AND PARTLY BECAUSE OF DISAGREEMENTS BETWEEN COMMUNISTS AND SOCIAL DEMOCRATS IN THE LABOR MOVEMENT OVER HOW TO PROCEED.

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3. THE CENTRAL LABOR CONFEDERATION (SAK) HAS CALLED FOR "GENERAL COMPENSATION" BUT HAS MADE NO RECOMMENDATIONS ON WHAT FORM THE COMPENSATION SHOULD TAKE. THE SAK'S LARGEST UNION, THE METALWORKERS, ISSUED A RESOLUTION MARCH 8 ENDORSING THE SAK DEMAND, BUT THE RESOLUTION WAS NOT SUPPORTED BY THE UNION'S COMMUNIST MINORITY. A COMMUNIST RESOLUTION DEMANDING BOTH COMPENSATION AND IMMEDIATE PAYMENT OF WAGE INCREASES ALREADY DUE BUT POSTPONED AS PART OF SORSA'S DECEMBER PACKAGE WAS DEFEATED. ONLY THE SMALLER WHITE-COLLAR FEDERATION (TVK) HAS SPELLED OUT SPECIFIC DEMANDS, CALLING ON MARCH 9 FOR A SALARY INCREASE OF 75 MARKS (APPROXIMATELY 19 DOLLARS) PER MONTH PLUS PAYMENT OF THE POSTPONED INCREASES. THE FEDERATION OF TECHNICAL EMPLOYEES (STTK) CALLED FOR THE NEGOTIATIONS TO BE CONDUCTED BY INCOMES NEGOTIATOR LIINAMAA, WHO AUTHORED THE DEVALUATION CLAUSE IN THE FIRST PLACE. THIS SUGGESTION HAS NOT BEEN FAVORABLY RECEIVED BY EMPLOYERS, WHO CONTEND THAT THERE IS NOTHING TO NEGOTIATE.

4. WHILE THE CENTRAL LABOR ORGANIZATIONS ARE CAUTIOUSLY DRAWING UP POSITIONS FOR THEIR TALKS WITH BOTH EMPLOYERS AND GOVERNMENT, THE SMALL SOCIAL-DEMOCRATIC-CONTROLLED WOODWORKERS UNION HAS SOUNDED THE FIRST CALL FOR GENERAL STRIKE ACTION, PRE-EMPTING A FAVORITE COMMUNIST DEMAND. FINLAND HAS NOT HAD A GENERAL STRIKE SINCE 1956, AND THERE IS NO SERIOUS TALK OF ONE NOW, BUT SOME SPECULATION HAS APPEARED IN THE PRESS THAT A LIMITED AND SYMBOLIC GENERAL STRIKE MIGHT BE ATTEMPTED ON APRIL 5 IN CONVENIENT CONJUNCTION WITH THE ETUC WORKER ACTION DAY (REF: BRUSSELS 2615), ALTHOUGH THAT DATE FALLS BEYOND THE NEGOTIATION SCHEDULE. THERE IS ALSO MENTION OF A TEST STRIKE BY
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THE FOODWORKERS, ONE OF THE FEW UNIONS WHOSE CONTRACTS EXPIRED THIS MONTH. FOR THE MOMENT, HOWEVER, THIS TALK IS REGARDED AS ONLY PART OF THE PRE-NEGOTIATION MANEUVERING, AS LABOR WOULD HAVE TO WEIGH CAREFULLY WHETHER STRIKES WOULD COMPENSATE OR AGGRAVATE THE EFFECTS OF DEVALUATION.

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C O N F I D E N T I A L SECTION 2 OF 2 HELSINKI 0741

5. 1978 BUDGET DEFICIT. WITH FINLAND'S ECONOMIC RECESSION DEEPER AND LEVEL OF UNEMPLOYMENT HIGHER THAN PROJECTED LAST YEAR IN PLANNING 1978 BUDGET RECEIPTS AND EXPENDITURES, THE CURRENT BUDGET HAS BECOME SERIOUSLY OUT OF BALANCE. IT IS CLEAR TO ALL PARTIES THAT THE CURRENT FISCAL CRISIS CAN ONLY BE ADDRESSED THROUGH A COMBINATION OF INCREASED GOVERNMENT BORROWING, BOTH DOMESTIC AND FOREIGN, AND SHARP CUTS IN BUDGETED SPENDING. THE QUESTION OF HOW MUCH THE GOVERNMENT CAN BORROW IS CURRENTLY THE SUBJECT OF DISCUSSION BETWEEN THE GOVERNMENT AND AN UNENTHUSIASTIC BANK OF FINLAND. THESE DISCUSSIONS ARE NOT MADE ANY EASIER BY THE FACT THAT THE GOVERNOR OF THE BANK OF FINLAND, MAUNO KOIVISTO, IS INCREASINGLY CONSIDERED AS A RIVAL IN THE SOCIAL DEMOCRATIC PARTY OF PRIME MINISTER SORSA, BOTH FOR PRESTIGE WITHIN THE SDP AS WELL AS FOR POSSIBLE CONSIDERATION AS AN EVENTUAL SUCCESSOR TO PRESIDENT KEKKONEN.

6. IT WILL BE VERY DIFFICULT FOR THE GOVERNMENT PARTIES
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TO AGREE ON WHERE TO MAKE BUDGET CUTS, PARTICULARLY IN A SITUATION IN WHICH EACH PARTY IS WEIGHING THE POSSIBLE ELECTORAL IMPLICATIONS OF ITS POSITIONS ON BUDGET ISSUES. IN EFFECT EACH GOVERNMENT PARTY IS URGING BUDGET CUTS IN PROGRAMS IMPORTANT TO OTHER PARTIES' CONSTITUENCIES WHILE VIGOROUSLY OPPOSING CUTS IN AREAS IMPORTANT TO ITS OWN FOLLOWERS. THE GOVERNMENT WILL HAVE TO REACH SOLUTIONS TO THE 1978 BUDGET DEFICIT WITHIN THE NEXT FEW WEEKS.

7. THE 1979 BUDGET. THE SAME KIND OF CONSIDERATIONS MENTIONED WITH REFERENCE TO THE 1978 BUDGET WILL AFFECT THE 1979 BUDGET PROCESS, AND THE GAP BETWEEN REVENUES AND EXPENDITURES IN 1979 THREATENS TO BE EVEN WORSE. THE 1979 BUDGET IS CURRENTLY BEING WORKED ON IN THE MINISTRIES AND WILL NOT BE READY FOR CABINET-LEVEL CONSIDERATION UNTIL THE SUMMER. THIS ISSUE, THEREFORE, IS NOT LIKELY TO BECOME A CRITICAL ONE UNTIL THAT TIME.

8. CONSTITUTIONAL REFORM. ANOTHER ISSUE WHICH DOES NOT HAVE TO BE FACED IMMEDIATELY BUT WHICH PROMISES TO BE VERY DIVISIVE WITHIN THE GOVERNMENT--AND A HOT ELECTION ISSUE-- IS THE PROPOSAL FAVORED BY THE PRIME MINISTER TO AMEND THE CONSTITUTION TO FACILITATE PASSAGE OF ECONOMIC BILLS. SORSA BELIEVES THAT REAL SOLUTIONS

TO FINLAND'S ECONOMIC PROBLEMS CAN ONLY BE REACHED
IF THE GOVERNMENT HAS SUFFICIENT POWER TO PROMULGATE
AND IMPLEMENT EXPEDITIOUSLY THE NEEDED ECONOMIC POLICY
MEASURES. UNDER EXISTING CONSTITUTIONAL NORMS A
MINORITY OF THE PARLIAMENT--UNDER SOME CIRCUMSTANCES
ONLY ONE-SIXTH--CAN BLOCK THE GOVERNMENT FROM TAKING
PROMPT ACTION ON IMPORTANT ECONOMIC MEASURES. THE
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PROPOSED REFORM--ALSO REQUIRING A FIVE-SIXTHS
MAJORITY--WOULD GIVE THE GOVERNMENT THE ABILITY TO
IMPLEMENT IMPORTANT ECONOMIC MEASURES WITH THE
APPROVAL OF ONLY A SIMPLE MAJORITY OF PARLIAMENT.
THE PROPOSAL IS A HIGHLY CONTROVERSIAL ONE IN
CENTRIST AND CONSERVATIVE CIRCLES BECAUSE IT WOULD
SEEM TO ENHANCE THE POTENTIAL OF THE TWO
LARGE LEFT PARTIES (COMMUNISTS AND THE SDP) TO
PUSH THROUGH ECONOMIC MEASURES AGAINST THE FORMER'S
INTERESTS. THE SMALL FINNISH PARTIES ALSO SEE THE
MEASURE AS THE BEGINNING OF THE EROSION OF THE
POSITION OF SMALL PARTIES IN FINLAND'S POLITICAL LIFE.

9. THE OUTLOOK. FAILURE OF THE GOVERNMENT PARTIES
TO REACH AGREEMENT ON ANY ONE OF THE ABOVE ISSUES COULD
RESULT IN THE FALL OF THE GOVERNMENT AND THE CONVENING
OF NEW ELECTIONS. THERE ARE SOME FACTORS FAVORING THE
CURRENT GOVERNMENT CONTINUING UNTIL THE SCHEDULED
ELECTIONS IN MARCH; THAT SORSA'S SOMEWHAT TARNISHED PRESTIGE
IS ON THE LINE AND THAT PRESIDENT KEKKONEN HAS INDICATED HE
WANTS THE CURRENT PARLIAMENT TO APPROVE THE REFORM
PROPOSAL ARE TWO FACTORS SOMETIMES MENTIONED. HOWEVER,
WE DOUBT THAT THE GOVERNMENT COALITION WILL IN FACT
BE ABLE TO OVERCOME ITS INTERNAL CONTRADICTIONS
SUFFICIENTLY TO RESOLVE THESE ISSUES AND, HENCE,
EXPECT THAT ELECTIONS WILL BE CONVENED THIS YEAR.
IF THE CRUNCH COMES OVER THE WAGE REVIEW ISSUE OR OVER
THE 1978 BUDGET, THEN THE GOVERNMENT COULD FALL
SHORTLY AND THE ELECTION WOULD BE HELD IN MAY/JUNE.
IF, HOWEVER, THE GOVERNMENT MUDDLES THROUGH THESE
ISSUES BUT FALTERS OVER CONSTITUTIONAL REFORM OR THE
1979 BUDGET, ITS RESIGNATION COULD COME IN AUGUST
AND ELECTIONS WOULD THEN BE HELD IN NOVEMBER. WHILE
THE GOVERNMENT'S PROSPECTS ON ANY OF THESE ISSUES ARE
NONE TOO ENCOURAGING, WE THINK THE LATTER POSSIBLE
ELECTION DATE IS MORE LIKELY.
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